

SENATE UNIT VOTES AN ARMS LOAN CUT FOR EXPORT BANK

But Its Right to Give Poor
Lands Credit Is Retained
by Banking Committee

FLOOR APPROVAL IS SEEN

Institution's Lending Limit
Would Rise \$4.5-Billion
to \$13.5-Billion Total

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WASHINGTON, Aug. 2 —

The Senate Banking and Currency Committee voted unanimously today to leave unimpaired the authority of the Export-Import Bank to make loans for arms purchases by underdeveloped countries. However, the committee voted to limit the total amount of such loans.

The panel took these actions in approving a bill to extend the bank's charter for five years beginning next July 1 and to increase its lending authority from \$9-billion to \$13.5-billion.

The bill will now go to the Senate floor. Favorable action there, without further restriction on the bank's authority to make loans for arms purchases, is regarded as almost certain.

Banking Committee members made plain today that the panel decided to leave to the Foreign Relations Committee and the Senate itself the question of whether the Government should advance, and guarantee, credits to underdeveloped countries for arms purchases. They said the Banking Committee confined itself to the question of whether the bank should properly be the instrumentality for such loans.

\$604-Million Loans

Over the last two fiscal years and the first month of the fiscal year 1968, which began July 1, the Pentagon has made \$604-million in loans to 14 underdeveloped countries to buy arms from the United States Government.

It has made these loans from lines of credit advanced by the Export-Import Bank. As required by the bank—an independent Government agency—the Pentagon put up guarantees amounting to 25 per cent of the loans. The guarantees have come from a revolving fund, annually augmented by Congress. The revolving fund now amounts to \$383-million.

Loans to underdeveloped countries are called "country-X" loans because the Export-Import Bank does not ask, and does not wish to be told, what countries get them from the Pentagon.

The authority for the Pentagon to use the revolving fund for such guarantees derives from two amendments to the basic Foreign Assistance Act, which Congress granted in 1964. The Senate Foreign Relations Committee and the House Foreign Affairs Committee have jurisdiction over foreign aid bills.

Panel Members Arranged

The controversy of the last month over arms sales to underdeveloped nations arose when most members of the Senate and House Banking Committees and most members of the Senate Foreign Relations Committee said they were unaware that the Export-Import Bank was being used to supply credit for such sales.

Members of the Foreign Relations Committee said it had been their understanding, back in 1964, that the authority for the 25 per cent guarantee was to be used by the Pentagon to attract loans from private banks, not from the Export-Import Bank.

The Export-Import Bank was created in 1934 for the purpose of making loans for the importing of American goods into countries that could not obtain sufficient commercial credit.

Today the Senate Banking Committee approved an amendment stating that at no time could the Export-Import Bank have credits outstanding for arms sales to underdeveloped countries amounting to more than 7½ per cent of the bank's total lending authority of \$13.5-billion.

This means that no more than \$1,012,500,000 of the bank's lending authority for the next five years can be used for such credits. Inasmuch as there are loans outstanding of \$604-million, this must be subtracted from the total, leaving \$408-million available from the funds authorized today.

Repayments Could Be Used

However, the committee put no restriction on the relending of repayments on past loans. These repayments are running at a rate of about \$55-million a year. Over the next five years this would amount to \$275-million.

Therefore, what the bank would actually have available for credits for arms purchases to underdeveloped countries would be \$408-million plus \$275-million, a total of \$683-million, or just over \$136-million a year.

Since the Export-Import Bank credits for such sales to underdeveloped countries in the fiscal year amounted to \$238-million and in the fiscal year 1967 to \$353-million, and since the Pentagon had projected \$256-million in such credit sales in this fiscal year, the committee's action, if sustained by both houses, would result in a considerable cut-back.

However, the Administration was not only content with today's action but was thought to have proposed it. The amendment was introduced by Edmund S. Muskie, Democrat of Maine, chairman of the International Finance Subcommittee of the parent committee. Mr. Muskie often supports the Administration.

Restriction in Senate

But the Administration is not yet over the yump on the issue of using the Export-Import Bank to finance arms to underdeveloped countries.

Last week the Senate Foreign Relations Committee, before reporting out the foreign aid bill, voted to abolish gradually the Pentagon's revolving fund by abolishing authority for further appropriations for it and requiring that the guarantees revert to the Treasury as loans are paid.

With the disappearance of the revolving fund, the Pentagon could not guarantee the line of credit from the Export-Import Bank, and the bank will not extend such credits to underdeveloped nations without guarantees.

It is believed the Senate may support the action of the Foreign Relations Committee. However, it is almost certain that the House Foreign Affairs Committee, which tends to show much less independence of White House wishes, will not adopt a parallel amendment to abolish the revolving fund.

The issue therefore may have to be fought out in a conference committee of the Foreign Affairs and Foreign Relations Committees.

If the Senate conferees stand firm and the revolving fund is eliminated, then today's action by the Banking Committee will have no effect. If, however, the Senate conferees give way, then the Export-Import Bank can continue making such loans.

Moreover, no restriction would be placed on further direct loans by the bank to credit-worthy countries for arms purchases. In the last two fiscal years, the bank made \$1.1-billion of such loans, compared to \$591-million in country-X loans and \$4.4-billion in nonmilitary loans.

This meant that 39 per cent of the bank's loans were for arms purchases.